HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

New Home Market

A total of 18,914 housing units were started in the Vancouver CMA in 2005, down 3 per cent from the previous year. The decline was not a result of falling demand. Rather, supply-side constraints around the availability of developable land, high land cost, a scarcity of skilled trade workers, and a trend toward more complicated mixed-use developments impacted the ability of builders and developers to continue increasing production.

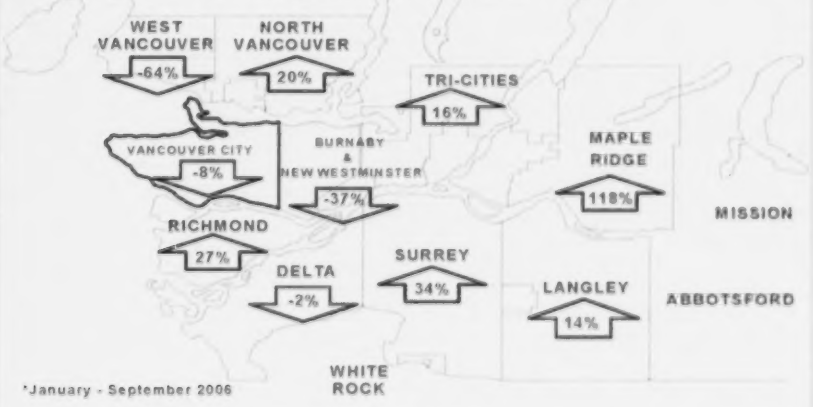
In spite of production constraints, housing starts are forecast to rise 11 per cent to 21,000 units this year. At this level, the industry is currently operating near full capacity. The good news is that these constraints may alleviate fear of overbuilding. When housing markets shift from their cyclical highs, large inventories can put downward pressure on prices.

Recent additions to the supply of building lots in the Fraser Valley contributed to a rapid increase in the number single detached starts. In addition, an increase in the number of higher density small lots has enabled builders to produce more single detached units per acre of land. Single detached housing starts are expected to rise 22 per cent to 6000 units this year.

Continued on the next page

Figure 1

Lower Mainland Housing Starts*
Change in Units 2005 - 2006



*January - September 2006

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IN THIS ISSUE

New Home Market 1
The Resale Market 3
Interest Rate 4
Economic Outlook.....5
Forecast Summary 6

Today, three-quarters of all housing starts are of the multiple unit variety. Building upward instead of across the landscape is necessary to accommodate the region's growing population. The more the built environment grows, the more difficult it is for home builders to find appropriate sites to develop. The best sites sell first, making development of former industrial lands, smaller projects, and infill development necessary.

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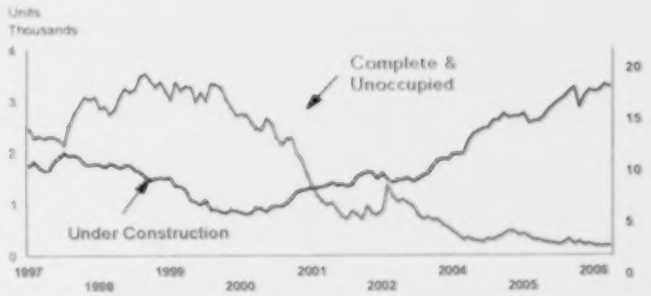
Apartment and townhouse condominium developments face the brunt of Greater Vancouver's building capacity constraints. The type of materials and skilled labour needed for a condominium tower, for example, are also demanded by the numerous Olympic and transportation related projects now underway in the Lower Mainland. These factors have contributed to an expected increase of just 7 per cent to 15,000 multiple housing starts this year.

Supply-side constraints will operate to limit Vancouver CMA housing starts in 2007. Single detached and multiple housing starts are both forecast to edge back 3 per cent to a total of 20,300 units. However, at this level, 2007 housing starts will mark the third highest number on record. At total of 5,800 single detached and 14,500 multiple starts are forecast for next year.

Construction costs rising at an annual rate of 10-12 per cent combined with a relatively low level of inventory will push new home prices even higher during the forecast horizon. The average absorbed price of a new single detached home is estimated to climb13 per cent to $690,000 on average in 2006. Moderating demand in addition to some relief around material costs will contribute to a forecasted average price increase of 7 per cent to $740,000 in 2007.

Figure 2

Condominium Supply: Vancouver CMA



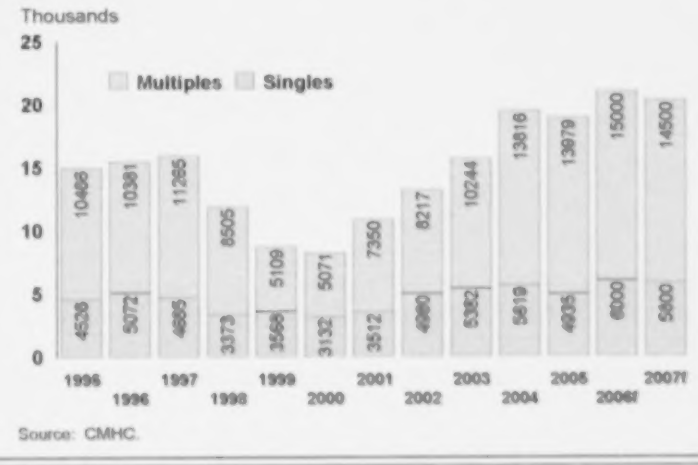
The average absorbed price of a new townhouse is expected to climb 26 per cent to $395,000 this year. The increasing scarcity of ground oriented housing, the trend toward more luxurious units, and the relatively high cost of a single detached home are the driving forces behind the price appreciation. Next year, price inflation is expected to moderate to an increase of 6 per cent to $420,000 on average.

New apartment condominiums have faced robust consumer demand over the last few years, with lifestyle and a low price tag the key drivers. The average absorbed price of a new apartment is expected to reach $360,000 this year, an increase of 10 per cent. With first-time buyers a key market segment, more modestly priced apartments are necessary to the unit mix. In 2007, continued price appreciation is expected. The average price of an apartment condominium in the Vancouver CMA is forecast to rise 7 per cent to $385,000 next year.

The Abbotsford CMA is expected to experience a 9 per cent increase in housing starts this year, for a total of 1,105 units. A shortage of developable land for single detached homes is contributing to an expected 8 per cent decline in starts of this home type this year. As a result, a total of 420 units are forecast to start in 2006. Strong demand and a limited supply will push the average price of a single detached home up 21 per cent to $460,000 this year.

Figure 3

Housing Starts: Vancouver CMA



Multiple housing starts increased significantly in the last few years after lagging behind for almost a decade. Dwindling inventories, land constraints, and affordability are driving a new explosion of multi-family dwellings in Abbotsford, which now comprise more than half of all housing starts in this suburban market. An increase in multiple starts of 24 per cent to 685 units is forecast for this year. The absorbed price of a condominium in the Abbotsford CMA is expected to average $295,000 this year, up 10 per cent from 2005. Next year, a further 8 per cent increase to $320,000 is forecast. ■

The Resale Market

Greater Vancouver

After a record number of MLS sales last year, home sales through the Real Estate Board of Greater Vancouver (REBGV) are forecast to fall back 8 per cent to 37,900 units by the end of 2006. Greater Vancouver's accelerating home prices are beginning to impact affordability and thus overall demand. The days of home sellers immediately realizing their asking price appear to be numbered.

The risk of a significant price correction is remote over the forecast horizon. Strong employment growth, low unemployment, and increasing population will continue to underpin the resale market. As a result, MLS sales are forecast to stabilize next year, albeit declining 1 per cent to 37,400 units sold. The market is expected to trend more toward balance in 2007 as sales fall off their historic highs and the inventory of listings begins to grow.

Sales of single detached homes are forecast to decline 9 per cent to 15,300 units by the end of this year, and another 3 per cent to 14,900 in 2007. With the average price expected to reach $720,000 in 2006, an average annual increase of 23 per cent, affordability is fast becoming a constraint for many home buyers who prefer this housing type. Next year, single detached home prices are forecast hit $765,000, but with the rate of growth slowing to 6 per cent.
Consumers who prefer ground-oriented housing are increasingly looking to townhouses as a less expensive option to single detached homes. The relative price of townhouses is contributing to an increase in their proportion of the overall housing stock. Townhouse sales are also expected to decline in 2006, however, less than the decline in single detached homes. Sales are forecast to dip 4 per cent to 6,600 units in 2006 and a further 2 per cent to 6,500 units in 2007.

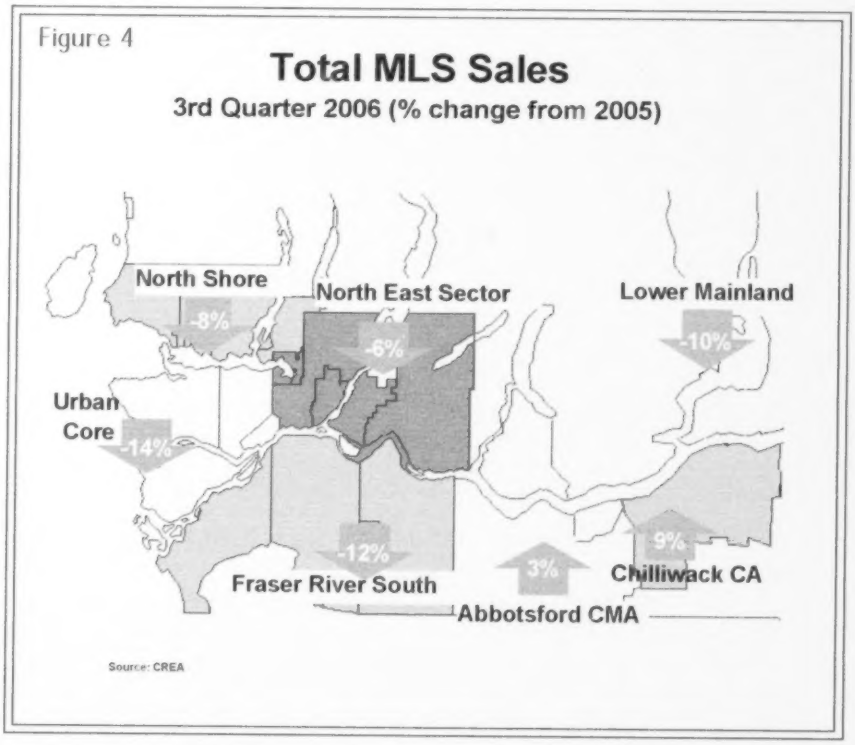
Four out of every ten homes sold through the REBGV are now apartment condominiums. While apartments are the most affordable type of home, their average price is forecast to climb 18 per cent to $350,000 this year and 9 per cent to $380,000 in 2007. As a result, the number of apartment condominium sales is forecast to decline 7 per cent to 16,000 units this year. However, the sales are forecast stay level at 16,000 units next year.

Fraser Valley

The Fraser Valley Real Estate Board (FVREB) MLS sales are also forecast to decline both this year and next. However, the decline is expected to be less than in the REBGV area, falling just 4 per cent off 2005's record number to 17,950 units. Relatively less expensive home prices will contribute to stronger demand in the Fraser Valley than in the urban core

After a 4 per cent decline in 2006, Fraser Valley existing home sales are

Figure 4



forecast to begin levelling off in 2007 as local economic fundamentals underpin housing demand. Suburban population growth and strong labour conditions are expected to bolster consumer demand. Home sales through FVREB are forecast to dip 2 per cent to 17, 650 units next year.

Sales of single detached homes are expected to decline 4 per cent on average to 10,350 units in 2006, and a further 1 per cent to 10,200 units next year. Sales of condominiums are forecast to fall back by 3 per cent to 7,600 units after experiencing a phenomenal 28 per cent increase in 2005. In 2007, condominium sales are forecast to slide another 2 per cent to 7,450 units. As in the REBGV area, record high home prices will be the main culprit in waning demand. Many would-be homebuyers are finding it increasingly difficult to fit their preferred home and location into their household budget.

Condominiums in the Fraser Valley are among the least expensive home type in the region. As a result, demand for condominiums is forecast to propel the average price up 24 per cent to $245,000 in 2006. In addition, a large proportion of Fraser Valley condominiums are less than 10 years old,

Figure 5

this means the number of units being resold for the first time is increasing. This operates to elevate the average price as the asking prices for newer units are typically higher. However, the erosion of affordability due to this rapid price escalation is expected to begin to impact demand next year. Thus, the average price of a Fraser Valley condominium is forecast to climb 6 per cent to0 $260,000 in 2007.

Interest/Mortgage Rates

Economic growth in Canada is forecast to remain near its potential of 3.0 per cent. GDP growth in Canada is forecast to reach 2.9 per cent this year and 2.7 per cent in 2007. While Canadian economic growth remains moderately robust, an expected easing of US economic growth over the next two years is likely to reduce the risk of monetary tightening, that is, higher interest rates, north of the 49th parallel.

Inflation in Canada is expected to remain within the Bank of Canada's 1.0-3.0 per cent target range. The combination of Canada's economy operating at or below full capacity and continuing low inflation rate, will put some downward pressure on interest rates. Therefore, over the next 12 months a reduction in the Bank rate of 25-50 basis points is forecast.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007. ■

Figure 6 **Sales to New Listings Ratio: Greater Vancouver**

Economic Outlook

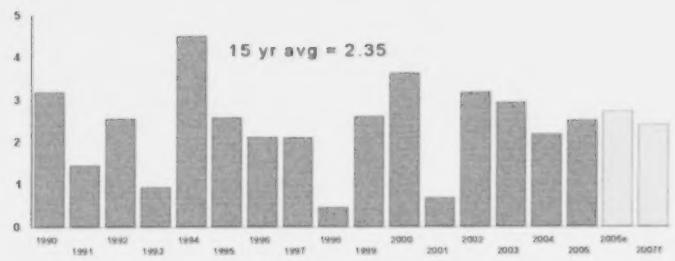
The BC economy is expanding well above the national average. GDP growth in the province is forecast to grow 3.5 per cent pre annum through 2007. Only oil-rich Alberta will outpace economic growth in the province over the forecast horizon.

While the provincial economy is currently in a robust expansionary phase, economic growth in the Vancouver CMA is forecast to grow even more rapidly. GDP growth is forecast to reach 4.3 per cent this year and 4.0 per cent in 2007. A large number of capital projects currently underway are adding fuel to an already energized consumer demand. Retail sales are expected to grow in the 6-7 per cent range through 2007.

Employment in the Vancouver CMA is forecast to increase 2.6 per cent this year and 2.5 per cent in 2007, with most of the growth occurring in the construction and retail/wholesale trade sectors. With a labour force growing more slowly than employment, the unemployment rate is expected to fall to 4.7 per cent on average this year and 4.4 per cent in 2007.

Strong demand for labour is contributing to the bidding up of wages. After growing 3.7 per cent in 2005, wages and salaries are expected to increase 3.9 per cent on average this year and 4.2 per cent in 2007. The labour market is particularly tight in the construction sector where a level of full-employment has been reached. Upward pressure on wages in the skilled trades is expected to continue over the next two years.

Figure 7 **Employment Growth: Greater Vancouver**

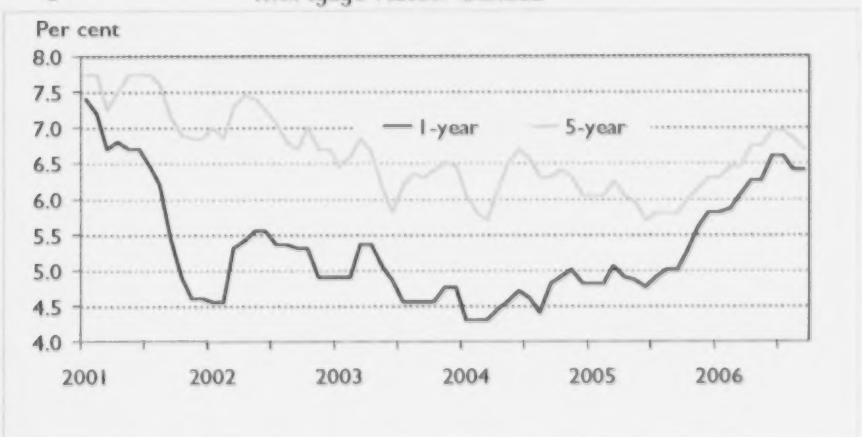


Source: Statistics Canada, CMHC Forecast

Labour market conditions are drawing more workers to the Vancouver CMA from other provinces. Since 2004, net inter-provincial migration has been positive, reversing the 1998 to 2003 trend where a total of 19,776 people left Vancouver for other provinces on a net basis. Net inter-provincial migration has been in positive territory ever since. A total of 2,700 net inter-provincial migrants are expected to arrive in the Vancouver CMA this year and 3,000 in 2007.

International migration has long underpinned local population growth. Vancouver's multi-cultural mix is a strong pull factor for Canadian immigrants. A total of 31,000 net international migrants are expected to land in Greater Vancouver this year, with 32,000 forecast to arrive in 2007. However, Vancouver's eighteen year history of losing people to other parts of the province will continue. A total 12,000 people are forecast to leave Greater Vancouver to other areas of the province on a net basis in 2006-2007. Total net migration from all sources is forecast to increase 3.2 per cent this year to 29,100 and a further 5.5 per cent to 30,700 in 2007.

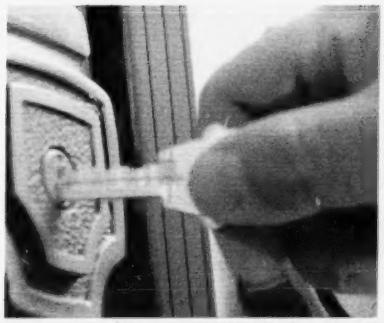
Figure 8 Mortgage Rates: Canada



The combination of robust economic growth and the associated increases in employment, wages, retail sales and migration are expected to support housing demand in the Vancouver CMA. Vancouver's home prices have increased significantly over the last several years. As a result, eroding affordability in the housing sector is already having an impact on demand. The strong economic outlook for the region is good news for both homebuyers and sellers, supporting both consumer confidence and home prices. ■

Forecast Summary

	2004	2005	%CH	2006	%CH	2007	%CH
RESALE MARKET FORECASTS							
MLS - GREATER VANCOUVER							
Single Detached	14,885	16,847	13%	15,300	-9%	14,900	-3%
Townhouse	5,842	6,854	17%	6,600	-4%	6,500	-2%
Apartment	16,028	17,285	14%	16,000	-7%	16,000	0%
MLS - FRASER VALLEY							
Single Detached	9,600	10,793	12%	10,350	-4%	10,200	-1%
Condo	6,148	7,869	28%	7,600	-3%	7,450	-2%
MLS - TOTAL SALES	52,503	59,648	14%	55,850	-6%	55,050	-1%
Single Detached	24,485	27,640	13%	25,650	-7%	25,100	-2%
Condo	28,018	32,008	14%	30,200	-6%	29,950	-1%
AVERAGE MLS PRICE - GVA							
Single Detached	$526,798	$587,484	12%	$720,000	23%	$765,000	6%
Townhouse	$315,295	$362,847	15%	$420,000	16%	$445,000	6%
Apartment	$258,936	$296,036	14%	$350,000	18%	$380,000	9%
MLS - FRASER VALLEY							
Single Detached	$348,974	$391,654	12%	$475,000	21%	$520,000	9%
Condo	$173,571	$197,810	14%	$245,000	24%	$260,000	6%
NEW HOUSING FORECASTS							
STARTS							
VANCOUVER CMA							
Total	19,435	18,914	-3%	21,000	11%	20,300	-3%
Single-Detached	5,619	4,935	-12%	6,000	22%	5,800	-3%
Multi-Family	13,816	13,979	1%	15,000	7%	14,500	-3%
ABBOTSFORD CMA							
Total	1,083	1,012	-7%	1,105	9%	1,140	3%
Single-Detached	607	458	-25%	420	-8%	440	5%
Multi-family	476	554	16%	685	24%	700	2%
AVERAGE PRICE							
VANCOUVER CMA							
Single-Detached	$553,459	$611,333	10%	$690,000	13%	$740,000	7%
Townhouse	$302,793	$313,497	4%	$395,000	26%	$420,000	6%
Apartment	$314,016	$327,336	4%	$360,000	10%	$385,000	7%
ABBOTSFORD CMA							
Single Detached	$341,016	$380,360	12%	$460,000	21%	$505,500	10%
Townhouse	$243,401	$268,929	10%	$295,000	10%	$320,000	8%



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